

Global Market Outlook 2023

Fidelity Global Demographics Fund (Managed Fund)

Aneta Wynimko, Alex Gold, Oliver Hextall
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Sustainable demographics – Investing for the long term

Demographics are a structural, visible, long-term megatrend with compelling opportunities for investors. By adopting a bottom-up, fundamental approach that focuses on quality and sustainability, the Fund is well-positioned to navigate 2023, despite a volatile, near-term investment backdrop.

Key points

- Near-term inflationary pressures, the high interest rate environment, geopolitical tensions and the outlook for China remain key considerations.
- We believe the structural demographic trends of higher life expectancy, an expanding middle class and population growth continue to create attractive long-term opportunities for investors. The Fund has significant exposure to these themes.
- This is a well-balanced portfolio, focusing on robust and quality businesses that can grow and compound over time. Sustainability considerations are also crucial to capturing the full potential of the theme's investment opportunity.

Against the backdrop of inflation, geopolitical tensions and slowing growth, what is the investment outlook for Demographics in 2023?

In 2023, we expect a challenging investment backdrop, which calls for a selective investment approach. Inflation, rising rates and pressure on consumer wallets will all remain in sharp focus. Despite these near-term considerations, the three long-term demographic drivers of the Fund remain intact. These are Longer Lives, Better Lives and More Lives, that is higher life expectancy, an expanding middle class and population growth. In line with our bottom-up, fundamental approach, our focus remains on owning good businesses that can grow and compound over time, underpinned by exposure to the long-term theme of demographics.

What do you think could surprise the market in 2023, either positively or negatively?

We believe that investors who focus on near-term events underestimate long-term trends. We, as thematic investors, avoid making macro calls and focus on where we can add value for investors: bottom-up, fundamental investing, focused on identifying businesses that will benefit from long-term demographic trends. Nonetheless, as we move into 2023, inflation and the interest rate environment will be key areas to monitor, given their important implications for different sectors. Stickier inflation is a risk, as this could dash market hopes of a US Federal Reserve switch of focus and subsequently lead to a deeper recession than is currently priced in or to more businesses ceasing to exist. Elsewhere, we continue to assess developments in emerging markets, particularly China.

What themes, sectors or regions would offer opportunities and potential risks?

The healthcare sector continues to offer an attractive combination of defensive growth and pricing power during heightened macro uncertainty and growing inflationary pressures. Here, the demographic trend of increased life expectancy remains a key long-term structural driver for the sector. An ageing population also continues to support the need for automation to plug the labour supply gap. Against a backdrop of elevated inflation, higher cost of labour and supply chain disruptions are also increasing demands for automation solutions as they are economically more attractive and efficient.

Ethical considerations also remain front of mind: as the global population and its needs grow, making more sustainable use of our finite resources remains paramount. This is reflected in increased government support for sustainability-linked infrastructure spending. This creates an attractive backdrop for companies providing, for example, energy-efficient, sustainable solutions. Interest in this area has also been accelerated by ongoing geopolitical tensions and the growing energy crisis.

Middle-class expansion, particularly in emerging markets, remains a key driver for the Fund as it underpins long-term investment opportunities for many multinational and local players straddling multiple sectors. However, in the near term, consumer spending is an area we are monitoring, given the mounting pressure on consumer balance sheets amidst the current backdrop. The re-opening of China and its demographic outlook are also considerations for the team. Overall, the Fund remains well diversified across the three sub-themes of the strategy.

Within your portfolio, what has worked well in 2022, and what will you do differently in 2023?

Since we began managing the Fund, it has delivered attractive returns for our investors. These are underpinned by a clear investment philosophy focused on owning high-quality businesses exposed to the demographics theme. Despite the more challenging near-term performance, that focus and a fundamental, bottom-up approach will remain paramount as we construct a well-balanced portfolio to navigate the macro backdrop into 2023. We continue to focus on high-quality businesses with the ability to deliver superior and sustainable returns. Pricing power will also be a key consideration, underpinning the ability of companies to protect margins and build resilience against heightened inflation levels. The three demographic drivers of the strategy remain intact, providing long-term opportunities to companies exposed to them.

How do you expect sustainability factors to influence returns in 2023, and how is this reflected in your portfolios?

Sustainable investing is core to the strategy's quality-focused and fundamentals-driven investment process. We believe that solidly ethical practices will, over time, lead to lower cost of capital and higher returns for a company versus competitors with weaker practices. As a result, the strategy has historically scored very strongly from a sustainability standpoint.

Sustainability is also vital to appropriately capture demographic trends, looking for solutions to the challenges posed by an ageing, wealthier and growing population on healthcare and the planet's resources, among others. We continually monitor the Fund's holdings to ensure that companies we own are leaders in environmental, social and governance considerations in their respective markets or companies progressing in that direction.

Active engagement is key. As we look for new opportunities or reassess investment theses for current portfolio holdings, sustainability considerations are integral to our investment philosophy and process. At the same time, they also play a critical role in stock selection and portfolio construction.

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